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**TITLE: Online won't destroy retail, it'll give us money to spend locally**

**AUTHOR: Dr Richard Denniss**

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The most profitable retailers are the ones who can get you to pay far more than something is worth. In Australia, Tiffany jewellery, Levi's jeans and even Coca-Cola cost far more than they do in other countries. The brands, the retailers and the shopping centres are the big winners out of this sad state of affairs and customers and the non-retail sector of the economy are of course the big losers.

Online shopping is, for the first time, allowing Australians to access a genuinely competitive marketplace and the result is customers making big savings and the most expensive retailers facing even bigger reductions in profits.

But you have to hand it to the retailers; they are raising their sights even as they are lowering their profit expectations. Rather than simply try and talk customers into paying more than something is worth, they are now trying to talk the Australian Tax Office into doing the same thing. Put simply, they want us to spend more money collecting GST on low value, privately imported products than we would actually raise.

Once upon a time, spending taxpayers' money to insulate a domestic industry from foreign competition was called protectionism. In these topsy-turvy philosophical times, however, black is white, the "small-government" Liberal Party favours an army of bureaucrats to reduce greenhouse gas emissions and what would have once been called protectionism for the Australian retail sector is now called levelling the playing field.

Now let's be clear, nobody disagrees that in principle the GST should be applied evenly to all goods and services, including imports. But let us also be clear that in practice there are many exemptions to this principle. Health services, education services, second-hand goods, financial services and pets bought from the pound are all exempt from the GST. Fresh fruit and vegetables are exempt but takeaway food is not.

If the government accepts Gerry Harvey's "principle argument", then presumably McDonald's will be out calling for the GST to be introduced on milk and bread to level the playing field.

The GST was designed according to three principles: efficiency, equity and simplicity. While there is obviously a case for arguing that the current exemption from GST on privately imported products worth less than \$1000 is inequitable, there is also a case for arguing it

would be inequitable to abolish the exemption. Why should Australian taxpayers pay \$1.5 billion to collect \$500 million in GST revenue? Should the lost billion be taken from the (GST exempt) health or education budgets?

Online retail is set to transform the way that products are stored, transported and sold. The ability to warehouse products in places where rent is cheap and then transport them directly to consumers' homes or workplaces allows online retailers to save an enormous amount of money, savings that in the highly competitive online shopping market are invariably passed on to consumers.

As The Australia Institute [found earlier this year](#) the average mark-up on clothes and shoes in Australia is 142%. Not all of that is profit of course, as retailers have to cover the costs of rent, advertising and staff. But that is, of course, the point. Online retail is a far more efficient, and for many people a far more convenient, way to connect factories and families.

Once, airline passengers needed travel agents to connect them to airlines, now the vast majority of people book their own flights online. Once, we needed photo development labs to develop our photos, now the vast majority of people use digital cameras and view their pictures electronically. Thousands of jobs have been lost.

The rise and rise of online shopping combined with the fall and fall of consumers' credit card balances has created a perfect storm for Australian retailers and shopping centre owners. Bizarrely, consumers are being urged by some to spend more than they earn buying things at higher prices than they need to in order to prop up jobs in the retail sector.

The irony is that the big retailers are busy installing do-it-yourself checkouts and automating their warehouses so that they can sack the same workers they are publicly pretending to care so much about. It makes about as much sense as the mining companies projecting themselves as the workers' friend but in an age in which the truth is what your advertisements say, I suppose there is no harm in trying.

The biggest problem the retailers face isn't the 10% GST exemption, it is the 100% price differences between what Australians pay and what the rest of the world pays for identical items. Americans actually pay less to download an Australian song than we do.

Once, the retailers were big fans of free trade as they saw it as a way to get their hands on cheaper products sourced from overseas. Of course their enthusiasm for this possibility had nothing to do with delivering lower prices to their customers and everything to do with increasing their profit margins. In a competitive market, prices would have fallen but in the cosy oligopolies that dominate the Australian retail landscape there was little fear of a price war.

And then online shopping came along and ruined everything. Now Australian consumers can access the lower prices that Australian retailers have been enjoying for years and the result is a door-buster sale, but this time the customers are charging out of the big retailers not into them.

Online shopping will transform the retail sector, but it will not destroy it. The prices we pay for global brands will plummet and the money we save will be spent in other parts of the economy, especially in local stores selling local products. The retailers want us to think of the money they are losing as a loss to the economy when of course it is simply a boon for the parts of the economy offering better service and value.

*Dr Richard Denniss is executive director of The Australia Institute, a Canberra-based think tank, [www.tai.org.au](http://www.tai.org.au).*